
L. R. B. & M. JOURNAL

VOLUME 7	NUMBER 5
MAY, 1926	

NEW YORK OFFICE NUMBER

Published by
LYBRAND, ROSS BROS. & MONTGOMERY
Accountants and Auditors

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Early Days

By ROBERT H. MONTGOMERY

The New York office was opened in September, 1902. I remember the date as I had spent the summer months in the Catskill Mountains keeping the books and looking after the accounts of the Hotel Kaaterskill. It was a serious matter securing adequate office quarters. No one ever before had expressed a desire for as small and as cheap an office as I sought. I did not intend that the overhead expenses during the first year should exceed the gross income. I finally located one room at 25 Broad Street. The room was large but was on a court and had only one window. I sublet the part of the room which contained the window to the newly formed law partnership of Floyd and Leary. They, too, were keen on keeping down expenses but as there were two partners they felt like spreading a bit. The net cost of the dark corner was really quite small.

I was not as much discouraged as I might have been because engagements failed to flow in as we anticipated. Several prospective clients upon whom we counted sold out or died; others took their own time and disregarded my feeling that they should keep me busy. I never lost sight of the size and wealth of New York and had the utmost confidence in the ultimate working out of the venture. It did require a somewhat vivid imagination

at times, since there were months when the gross earnings were less than the net rental—which was almost nothing. More than once I comforted myself by visualizing the future and repeated to myself these inspiring words:

When I was a beggar boy
I lived in a cellar damp
I had neither friend nor toy
But I had Aladdin's lamp.

When I could not sleep for the cold
I had fire enough in my brain
And I built with their roofs of gold
My beautiful castles in Spain.

Another helpful thought was the unfailing support of my partners in Philadelphia. The early efforts seemed so futile sometimes that they would have been justified in suggesting that I return to Philadelphia and go back to work, but never was there a word of criticism. It meant a lot to me since I had equal confidence in them. I was prepared on a few hours' notice to audit the City Bank or the Standard Oil Co., which I certainly would have viewed with terror if I had not felt that the Philadelphia office and Philadelphia staff were back of me.

As a matter of fact, I did spend a lot of time in Philadelphia during the first year or two. I was reminded of this by an incident extremely annoying at the time but which later on was merely humorous.

The Treasurer of the Union Theological Seminary had died suddenly and we were asked to look after the books, the finances and the preparation of the annual report. I did much of the work myself but had to use an assistant to write up the books. I had taken on an accountant who furnished fine references regarding ability and who made a good impression. He was so highly satisfactory that Mr. Kingsley of the United States Trust Company, the acting Treasurer, congratulated me on his work. I felt justified in leaving him in charge. He was alone in offices which had an unmistakable ecclesiastical atmosphere. Nearby was the chapel where services were held frequently.

One day I received a telephone call to go to the Seminary at once. When I arrived I found my good accountant roaring drunk. The strain had been too much for him! He said he would like to tell me exactly what he thought of me. I did not like the prospect but could not resist the temptation to hear the truth. He said: "You would have a better business in New York if you did not neglect it by spending so much time in Philadelphia." Seldom have I heard a more comforting criticism. I expected something much worse. I subsequently found that my "find" was well known to other accountants. His great ability was recognized, which accounted for his references. I am afraid I too sent him on his way with a good word for his accounting work and no word regarding his failing.

When I moved to New York in 1902, excessive drinking among public accountants was far more prevalent than it was at the time of the enactment of the 18th Amendment. There was a modicum of truth in this

popular definition: "A public accountant is a bookkeeper out of a job . . . who drinks." Public opinion, however, forced the issue and excessive drinking became inexpedient as well as unwise.

Some say that the Volstead Act has increased drinking but it is not true as far as public accountants are concerned. In my opinion, however, prohibition laws are not responsible for the change. It is due to a higher average of intelligence.

Soon after that I received another shock. Among our first clients were the Rainey brothers who, among other ventures, had financed R. M. Owen in the automobile business. I had just started the first audit of the accounts when Mr. Owen asked me to step into the garage which adjoined the salesroom as he wanted to speak privately to me. He drew me into a far dark corner, lowered his voice and said "I count on you to protect me. I have been speculating in Wall Street, have lost a lot of money, and have taken it out of the business. You must cover it up." Coming from a stranger, I was in an uncomfortable position. My intuition told me he was joking but I had known a great many defaulters, they necessarily were all trusted officers and most of them were more likable than the average honest officer. I decided to make no comment at all, except to tell him to proceed with his story. This was too much for him. He laughed and slapped me on the back. Thus started a friendship which has been unbroken for more than 25 years. During that entire period the firm has never had a better friend. We have more clients today arising from his good offices than from any other one source.

It has always been my thought that

the best work of an accountant is done in clients' offices. It assists in concentration, stimulates one's imagination, and keeps all of one's faculties on the job in hand. Some people say they cannot do their best work unless they are completely removed from the curiosity or supervision of others, but I do not believe that this applies to accounting work. We should be more alert to construct and more astute to criticize when surrounded by the atmosphere of our client's offices than back in the somnolent air of our private offices. I honestly believe that my dark and uncomfortable office was an asset. I preferred to work any other place!

Be that as it may, expenses were kept down. Until Miss Storey joined me in 1903 I never felt satisfied that the office was properly looked after in my absence. My imagination always pictured important new clients calling up on the telephone without adequate attention. From the time Miss Storey arrived my apprehensions vanished. When I was away all day she did not even go out to lunch. I am quite sure that from the time of her arrival no possible client escaped us. Truly she was a tower of strength.

For a short time I was a specialist in public utility accounts. I had had some very good experiences in rate cases and when I was asked to read a paper at the Congress of Accountants held in St. Louis in 1904, I chose the formidable topic: "The Importance of Uniform Practice in Determining the Profits of Public Service Corporations Where Municipalities Have the Power to Regulate Rates." The paper attracted such favorable attention that I was forced to devote a lot of time to the subject.

I am reminded that we all wore silk

hats, Ascot ties, frock coats and boiled shirts at St. Louis. When I read my paper I was bathed in perspiration, the thermometer being in the neighborhood of 100. We were similarly clothed when a delegation of us went to Washington in the summer of 1903. It seems incredible that we should have been so silly. It is easily explained, however. We were under British influence. They were good accountants and we profited mentally from the contact, but they knew less about physical comfort than any other nation on earth. I still suffer when I think of those clothes. But the British influence in dress is as extinct as the dodo. And the feminine members of the staff also seem to wear more comfortable clothes than they did in those early days.

Finally our sterling work attracted the notice of bankers and business men and our offices grew bigger and more expensive and the staff grew in numbers and sobriety.

Probably there are others starting in now as we did in 1902. If so, I wish them great success and congratulate them on the opportunities for worry and struggle which still exist. "Where there is no vision the people perish."

Duty

The longer on this earth we live
And weigh the various qualities of
men,

The more we feel the high, stern-
featured beauty

Of plain devotedness to duty.

Steadfast and still, nor paid with mor-
tal praise,

But finding amplest recompense

For Life's ungarlanded expense

In work done squarely and unwasted
days.

—Lowell

Constructive Services

By WALTER S. GEE

"Your last report saved our company over \$100,000 and we want you to look us over again this year."

In making this statement, the head of a large industrial organization referred to a report upon a survey, study and analysis of inventory production, cost accounting and organization conditions, which we had made during the preceding year. The complimentary comment was not literally exact, however, because the savings must have actually been accomplished by the action of the executives in correcting the unsatisfactory operating conditions reported. In this case we acted only as advisors on business policies and procedures. The report was simply an instrument in the hands of the management and its realizable value rested entirely in its effective use. The instance serves to illustrate, however, that modern business recognizes that public accountancy can furnish a worthwhile constructive service of business management.

This is evidenced also by the very perceptible increase in the requests public accountants have received for assistance in strengthening and improving the control of various operating activities. The services they have been asked to furnish in such cases covers a very wide field. Sometimes the demand is for the designing and installation of a complete general and cost accounting system. More often, however, the request is for modifications of existing practices for the purpose of securing prompt monthly statements of operations, more ac-

curate costs and the elimination of unnecessary records or personnel. The improvement of cost records frequently entails needed revisions in the production, inventory and cost controls. When complex problems arise from fluctuating demands or highly competitive sales conditions, studies of the relative effect of various attainable production volumes upon manufacturing costs and selling prices often give the management a sound basis for necessary adjustments in sales and production policies. A more exact allocation of overhead expenses on a departmental basis is often helpful when the price structures of various products are directly related to sales possibilities. These demands and many others of a like nature appear to be the natural and logical sequence of the desire of management to keep pace with progress in industry.

The last few years have witnessed sweeping changes in business practices and policies. Most American businesses have passed through the pioneering period and the deflation of the recent wartime expansion has been practically completed. It is generally conceded that we are now the most highly trained industrial nation in the world. We have reached the stage where our successful organizations produce all kinds of goods at prices which sell in competition with world markets, notwithstanding the fact that our workmen earn more, work shorter hours, and enjoy standards of living far higher than those of the workmen of any other nation.

The broad and constant changes in the business world have crowded difficult problems of adjustment and readjustment upon management. The growth and success of our industry has been achieved principally through the extensive development of the opportunities that this country gives to its people, and this development has been greatly accelerated by the skill, courage and foresightedness of capable business administrators. Modern management today gives intensive attention to the control of costs, reduction of waste and the elimination of uneconomical practices. It places great stress on specialization of effort and coordination of functional activities. It is constantly experimenting to discover better and less expensive ways of doing things. It recognizes that sound accounting is essential because it is the only medium by which the actual results and positive trends may be clearly pictured. Good management is the most important factor in business and good management demands constructive accounting services as an important part of its working equipment.

The knowledge and experience received from close contacts with important commercial and industrial activities enables many of us to furnish helpful advice upon general business problems. All accountants are not qualified to assume the position of business counsellors. Those who are, realize fully that they must concern themselves primarily with the practical effectiveness of business methods and organization, and that they must not confine themselves to technical accounting routines and procedures. In constructive accounting work it is essential that all accounting records and results should be con-

sidered from the managerial viewpoint, because their real value is in their utilization by management. The use factor should be the controlling one and should influence all important decisions. Needless to say, the accounting procedures must be kept as simple and intelligible as possible. The inclination of the less experienced to compile ever-increasing quantities of detailed information must be resisted. Every book and record must justify its existence by profitable use. Effort and money spent in assembling data which is seldom or never used, is waste.

It is quite impossible to list all the qualifications or to suggest the training necessary for successful work in the constructive accounting field. A thorough knowledge of financial, cost and industrial accounting is a basic necessity, but much more than this is needed. Experience gained from actual work in production departments is most valuable. The ability to see things both as they really are and as they ought to be, together with the knack of "selling" oneself to the client's organization are the most important of all. Good judgment, long endurance, common sense and an optimistic outlook are essential. Each business has its own problems and each company has its individual needs. Each must be studied with particular reference to its problems and the purposes to be accomplished. There can be no fixed program of training for such work and there can be no uniform program for the performance of the service.

In general, the accountant undertaking constructive work must approach it with a firm belief that some substantial benefits will be accomplished by his efforts. He must ascertain ex-

act facts and conditions and he must squarely face the problems that require solution, and in this connection it is extremely important that he should distinguish between surface and fundamental conditions.

The essential beginning in all such work is a careful survey of the existing situation. A survey is not simply a general review; it should be a quick general diagnosis of the matters requiring attention. While studying symptoms, probable remedies will often suggest themselves. After the survey, a general plan for future work should be established and careful consideration should be given to the adjustment of personnel in respect of any contemplated changes. Unskillful handling of the personnel has scrapped many well conceived plans.

An industrial case goes through all the twists and turns and ups and downs of a difficult mountain trail before it goes over the top. The interesting, amusing, and sometimes pathetic, situations that develop in such cases give one thrills that are seldom found in any other form of accounting work. Underlying all and influencing every idea and inspiration there is a consciousness that a worthwhile service is being performed.

It will be interesting, I believe, to tell a little something of some of the high spots in the work of our industrial department.

A company without a cost system and without monthly statements of operating results, found, at the end of its fiscal year, that the profits it had expected from the gross sales were almost entirely offset by losses arising from necessary reductions in the value of a huge stock of seasonal goods which was left on hand at the end of the year. The investigation showed

that the situation had developed principally because the officers of the company had not insisted on a clear picture of the effect which the various changes in sales prices and policies during the year would have on earnings. The lack of coordination between the sales and the production divisions resulted in the placement of large purchase commitments for raw materials at a time when the sales division was receiving pronounced indications of an unusual slackening of demand. A system of general and cost accounts designed to furnish monthly statements of the sales, cost of sales and gross profit on each article manufactured was installed. An operating council composed of the heads of the purchase production, sales and financial divisions was formed and budgetary controls were provided for its use. The earnings are again satisfactory, not because of changes in accounts, but because of the intelligent managerial attention to conditions disclosed by the monthly statements.

In another case we were asked to find the causes for a large difference between the values of the book and the physical inventory. The survey showed that the shrinkage was due directly to the use of inaccurate and understated costs. The real question then became why the actual costs should have been so high, and how they could be reduced. It was found that the high costs arose in part from an overmanned factory organization and from the lack of sufficient production volume. The ratio of foremen, clerical staff, engineers, etc. to shop workers was found to be excessive, when compared with other manufacturing enterprises in the same industry. Our point of profit chart, in which the fixed and variable costs were shown in

relation to varying sales volumes, indicated that the prospects for profitable operation were poor unless a substantial increase in volume could be secured. Departmental overhead rates were established to obtain more accurate cost estimates for use of the selling division in its effort to obtain the necessary increased volume. The factory organization was materially reduced and, with goods repriced upon the basis of an economical volume, the sales division was able to approach closely the volume required for profitable business.

Another client wished to obtain more accurate and timely statements of monthly operating results. The delay in the monthly statements was clearly caused by a cumbersome cost system. A job order type of cost finding was in use and required detailed computation of costs for each of the very numerous small orders. It was also found that but few of the order costs were used or referred to by the management. This job order type of cost system was replaced by one which provided a monthly cost on various well-defined classes of product and afforded an opportunity for the ascertainment of individual order costs on any job of sufficient size or importance. The operation of the old cost system required about 19 people while the new costing methods were done very comfortably with an organization of 6 or 7 employees. The new system made it possible to prepare monthly profit and loss statements shortly after the close of each period and also effected a saving in the personnel of the cost department.

In still another case, the survey showed that the essential primary need for accomplishing lasting results was the development of a factory ad-

ministrative organization along generally accepted and approved lines. The lines of responsibility and the duties of the existing organization were not clear and there was considerable confusion of functional activities. The new organization plan removed much of the lack of coordination in the factory. A much more alert factory organization did valuable work in locating and correcting faults in the manufacturing processes and in increasing the production of certain departments. Moreover, the rearranged factory organization gave strong evidence that it was capable of accomplishing many other important improvements if it were sufficiently guided and encouraged.

In an investigation made for the purpose of suggesting ways by which costs could be reduced, it was found that scrap losses of as high as 18 per cent were accepted as normal and unavoidable because of inherent difficulties in the fabrication of the product. This waste factor had been present for years. The causes for the waste were carefully studied, and rejected materials were traced back to their primary causes and one by one most of these were eliminated. It seemed possible to remove most of the difficulties when the real reasons or the waste were isolated. The high percentage of waste was found to be abnormal and due more to lack of attention on the part of management and failure to recognize faulty machine or handling conditions. Ultimately the percentage of waste was reduced to less than 3 per cent, which seemed about normal for this type of manufacturing.

The survey of an old established and successful company showed that it had

(Concluded on page 22)

Comments on the Audit of Stock-brokers' Accounts

By H. H. DUMBRILLE

Very few books have been written, explaining in detail, the accounts usually to be found in the office of a stockbroker, or showing the forms and records generally used, with explanations as to their purposes and the methods of recording transactions therein, or the procedure to be followed when making an audit, etc. The absence of this literature, no doubt, is the answer to the oft repeated question as to why comparatively few accountants appear to have any real knowledge of the procedure to be followed when making an audit of the accounts of a stockbroker, of the nature and purpose of the accounts, or of the terms peculiar to that particular business. Complaints and criticisms are made of some accountants who undertake audits of stockbroker's accounts, although they know little or nothing about "Wall Street" accounting and it is therefore necessary for someone in the office of the broker to help them out and explain the manner in which the transactions should be followed through.

Firms of public accountants who do much of this class of work find it extremely difficult to engage a sufficient number of qualified men with the necessary technical knowledge and experience. The men must therefore be recruited from those who have been employed in offices of stockbrokers or they must be given a special course of instruction and assigned to audits of this class under the guidance of ex-

perienced men. There is a decided disadvantage to firms of public accountants if men experienced in the technique of Wall Street accounts but with a limited knowledge of commercial accounting are engaged, because their usefulness for general work is decidedly limited.

Very large sums of money and large blocks of securities are handled each day in the office of a stockbroker. The work of recording these transactions is done under extreme pressure and there is generally no really efficient internal check. Clerical errors may be made in postings, in recording securities received and delivered, in making substitutions in bank loans, etc. Surety companies issue fidelity bonds and require certificates that audits have been made at stated intervals. The New York Stock Exchange sends out questionnaires to members of the Exchange and firms registered thereon, and specifies that audits shall be made in connection with the preparation of responses thereto. Defalcations, sometimes running into large amounts, are reported from time to time. It is therefore expected that the stockbroker will call in the public accountant at frequent intervals to "check" up his accounts.

Audits of stockbrokers' accounts are therefore made for different purposes among which may be mentioned the following:

To ascertain whether the accounts

are correct and the transactions properly recorded.

To meet the requirements of the New York Stock Exchange in connection with periodical questionnaires.

To comply with the conditions of surety company fidelity bonds.

To prepare statements incident to the retirement of a partner, the admission of a new partner, or the dissolution of a firm.

To discover fraud or manipulation.

To establish the solvency of the business.

In principle, the verification of a stockbroker's accounts is after all a comparatively simple matter when one is familiar with the business. There are very few real accounting problems such as may be found in large mercantile or manufacturing concerns. There are no complicated inventories of work in process, raw materials and finished product with their questions of frequently difficult valuations; no plant, machinery or equipment with questions of depreciation and obsolescence; no questions regarding excess quantities of supplies, spare parts, returns, allowances, etc.

In many respects, an audit of the accounts of a stockbroker is similar to that of a banking institution. The nature of the accounts and items which must be verified change materially from day to day, which makes it desirable to commence the work at the close of a day's business, and (where there is much margin business) preferably the last day of a month. The securities on hand must be inspected and counted, securities deposited with banks and others as collateral for money borrowed must be verified by written confirmation before changes by substitutions or sales and deliveries are made. It is therefore necessary

to obtain on the first day of the audit full details of all such items, the verification of which must subsequently be made.

The audit of a mercantile or manufacturing concern may ordinarily be taken up some time after the date as of which the examination is to be made without a material handicap, in fact it is usual to wait until the accounts have been closed, but this is not feasible with the accounts of a stockbroker, due to the rapid change in the items requiring verification. The accountant in charge of an audit of a stockbroker should prepare an outline or program before the commencement of the work so that he may direct the efforts of his assistants in orderly procedure, without unduly interfering with the business routine of the client and also to determine the order in which the matters claiming his attention should be taken up if he is to obtain the desired results with a minimum of effort. There is also less chance of overlooking some important feature which may be difficult to prove at a subsequent date.

The foregoing remarks will serve to illustrate the point that it is not practicable for an auditor to make an examination of the accounts of a stockbroker unless he is thoroughly familiar with the various features of the business, no matter how experienced he might be in auditing the accounts in other lines of industry. There is no time to work out problems or make a study of any particular feature, as is possible in a mercantile business, because the time may slip past and make a subsequent verification of a particular item practically impossible.

The more important features which require attention on the first day are discussed in the following paragraphs.

Securities

The securities in the "box" (on hand) should be inspected, counted and listed, or checked against the clients' record (box book) and a copy made of that record before it leaves the possession of the auditor. The term "securities" as herein used, includes stocks, bonds, customers' securities held for safekeeping, commodity margin certificates, warehouse receipts for "spot" commodities, etc. This feature is most important and it must be accomplished during a short period after the Stock Exchange closes and before the time when the boxes are taken to the vaults for the night. The work may require the services of several assistants accustomed to counting and handling securities because the "box" may represent one or ten large containers. All of them should be brought to the auditor at one time and no securities removed or added without the auditor's approval until the count of each separate box has been completed.

Securities fully paid for by customers and held for safekeeping are usually segregated in special envelopes marked with the name of the customer, or kept in separate boxes, and under the rules of the Exchange are not to be used by the broker as collateral for money borrowed. The verification of these securities is made by actual count and lists thereof mailed to the owners for confirmation.

Cash and Tax Stamps

A count should be made of the petty cash fund, the Federal, New York State and other revenue stamps. The depository banks should be requested to render statements with the paid checks to the close of business on the

date of audit. If the statements are not received direct by the auditor or one of his assistants, written confirmations should be obtained from the depositories to verify the balances shown by the statements or pass books.

The paid checks returned by the banks should be examined and compared with the check books, the deposits traced to the banks and the balances reconciled. In balancing the bank accounts, it is well to earmark the last deposit made and the last check used, and to compare in detail the deposits and check stubs with the cash book or blotters for the last few days to ascertain that all have been entered and that there has been no overlapping.

The auditor should examine all checks issued since the last reconciliation of the bank accounts to see that all numbers have been accounted for, also examine the unused checks in the back of the check book, by numbered sequence, to see that none are missing. He should lay aside or list all checks drawn to the order of "cash," and "bearer" and ascertain that the proceeds are accounted for properly.

Confirmation of Loans, etc.

Accountants accustomed to making audits of the accounts of stockholders have special printed forms for use in confirming loans and other open items. Statements should be prepared in duplicate by the client's staff (if such an arrangement can be effected), and checked by the auditor, for the following items:

Money borrowed and securities pledged as collateral therefor.

Securities borrowed and loaned, showing dates of the transactions and the contract values.

Securities "failed to receive" and "failed to deliver" with dates of transactions and contract values.

Securities purchased and sold "delayed delivery" and "when, as and if issued" with dates and contract values. Some brokers carry these trades as memo, showing the contract prices but not extending the value or establishing a ledger control therefor.

Securities out for transfer, exchange, endorsement, etc., showing on the statement the date sent to the transfer office, serial numbers, transferees' names, number of receipt issued by transfer office, etc.

It is usual to find subsidiary records containing details of the foregoing items and before mailing the original statements for verification, the aggregate of the money values should be proved with the control account in the general ledger. It is perhaps needless to state that stamped and addressed envelopes returnable directly to the auditor's office should be enclosed, also that the envelopes in which the statements are mailed should bear the return address of the auditor and that he should see that they are placed in the mails and not handed to the client for mailing or delivery.

As stated above the statements are to be prepared in duplicate, the original mailed and the duplicate retained by the auditor to be used for verification of the security records (sometimes termed long and short books).

As the signed statements are returned, indicating the correctness or otherwise, they should be compared with the duplicate copies and any changes or exceptions carefully investigated.

When the foregoing work has been completed the auditor may post-

pone the remainder of the work until the following morning.

Customers' Accounts

When the customers' statements have been prepared by the bookkeeper, they should be handed to the auditor for mailing. Each statement should be accompanied by a request to confirm the correctness thereof direct to the auditor's office. For the convenience of the customer, space should be provided for the signature. The auditor may have a special form of request for confirmation which is provided with spaces to fill in the money balances and security positions shown by the statements but in some instances the stockbroker may prefer to enclose a special letter written on his own stationery. If the former is used it is convenient to prepare the blank in duplicate by the use of a carbon sheet, the original to be sent to the customer and the duplicate retained by the auditor. If the latter form is used, it will be necessary to compile a schedule of the statements mailed and show the debit or credit money balances and the security positions. These money balances are compared with the trial balance and the securities with the security records. It is very desirable to check the securities shown on the statements with the security records before mailing the statements and it may be necessary to obtain permission from the stockbroker to defer mailing the statements until this work has been completed.

In the case of accounts marked "office" or "hold" the statements should be handed to the customer if he is in the office and known to the auditor. Otherwise they should be delivered to a partner for delivery or other disposition. In no instance should they be

handed to an employee of the stockbroker unless by special request of a member of the firm. A list of the statements handed to a partner for distribution should be presented to him for signature and mention thereof made in the auditor's report, which report should also include a list of such statements, and a list of all customers' accounts for which no statements were prepared. Obviously the verification is not complete unless the auditor is certain that the statements were sent to the customers.

Many stockbrokers carry a special surety bond which specifies that audits shall be made at stated periods and stipulates that statements are to be mailed to every customer who has an open account and if no reply is received within a reasonable time, a summary statement showing the money balance and security positions and request for confirmation is to be sent by registered mail and return receipt obtained through the post office. Inquiry should be made of the client, at the beginning of the audit, as to whether this type of bond is carried.

Investments

The stockbroker may own securities which he carries as investments or securities acquired through participation in syndicates or underwritings which are to be sold to customers. The verification of these items is made in the same manner as securities carried for a customer, except that the statements for confirmation are delivered to a partner for verification as to their correctness.

Stock and Bond Records

If the auditor can retain control of the security records or sections thereof for a sufficient period of time to

check out and balance the securities, he should compare the various items of customers' securities, securities in the box, securities deposited as collateral for loans, failures, borrowed and loaned items and securities in transfer direct to these records. If such a procedure is not possible, he should make a transcript of the entire records as soon as they have been written up to the date as of which the audit is made. This latter procedure is usually followed in the larger offices because it is not possible to obtain continuous use of the security records and besides it would delay the current work of the stockbrokers' office.

Customers' Margins

Unless a special arrangement to the contrary is made with the client, the sufficiency of margins for all customers' accounts should be verified, using the market prices at the close of business on the date as of which the audit is made. It is customary to use the last sale price on the date of the audit or, where no sale was made on that date, to use the closing bid price or the mean of the closing bid and asked prices, fractions being disregarded and bonds being figured flat.

It will be necessary to ascertain the rates of margins used by the stockbroker, and any accounts showing close or insufficient margin should be called to his attention.

The margin clerk is generally independent of the cashier or bookkeepers and therefore has less opportunity for fraud or manipulation of the accounts. It is possible, however, for the margin clerk to reopen an inactive account for his own trades or use the account of a friend (with his knowledge) and not maintain the usual margin. This is one of the

contingencies to be guarded against by verifying the sufficiency of margins and by taking every practicable precaution to make certain of the genuineness of customers' accounts.

Miscellaneous

Other items which should be verified by inspection, confirmation or careful review include:

*Contributions to clearing fund of the Stock Clearing Corporation.

Notes receivable.

Dividend account.

Error account.

Endorsements of puts and calls.

Partners' personal and trading accounts.

Underwriting and syndicate participations.

The ledger may also include accounts representing the value of seats on the various exchanges, office furniture and equipment and other fixed assets, accrued items receivable and payable and partners' capital accounts, and these all require appropriate consideration.

Earnings and Expenses

In the foregoing paragraphs, the work outlined has been confined to asset and liability accounts. Unless the stockbroker maintains a very close check on the income and expenses, the auditor should arrange to make at least a substantial test of the various items of these classes of transactions.

The charges and credits to interest account, representing interest charged and credited to customers, interest paid for money borrowed, interest paid on funds held to cover securities loaned, interest received on funds deposited with other brokers to cover securities borrowed and on money loaned, should be verified. Tests

should also be made of commissions and revenue stamps as recorded in the blotters. The income from investments owned by the stockbroker should be verified by comparison with published records of dividends declared and in the case of bonds with the rates of interest indicated thereon. The payrolls should be examined in support of the amounts charged for salaries and vouchers should be carefully scrutinized for all other expenses. Care should be exercised to see that vouchers are properly approved and that the items are proper and reasonable.

In this connection it is well to work from the ledger accounts, representing the various classes of income and expenses so that one can be sure that all items appearing in the several accounts for the period under review have been properly verified.

Cotton, Grain and other Commodities

Many stockbrokers execute trades in cotton, grain, coffee and other commodities. Some are members of the different exchanges where these commodities are traded in, while others carry the transactions with other brokers who are members of such exchanges.

All open transactions must be verified and balanced and statements mailed to customers, brokers and others for confirmation, as well as to the Clearing House and for margins deposited with trust companies.

As this part of the business is not strictly that of a stockbroker, further reference thereto will be omitted in this article.

Capital Account

If the business of the stockbroker is conducted as a co-partnership, the

partnership agreement should be examined to see that the provisions with respect to capital contributions, allowance of interest on capital advanced, division of profits, salary withdrawals, etc., have been followed.

Financial Position

A prudent business man makes a careful investigation of an enterprise before investing his money in it or before loaning money to it. He wants to know the financial position, the record of those to whom he is intrusting his money, the results of past operations and the probable result of future operations.

What does an investor or speculator know about the financial position, policies, stability, etc., of the stockbroker? Yet he deposits substantial sums of money as margin, against which he instructs the broker to purchase for his account large blocks of securities, which securities are in turn held by the broker or deposited with banks as security for money borrowed by the broker until the balance of the purchase price has been paid by the customer or until the latter orders the securities sold.

Investors and speculators have for many years been making such deposits without any definite knowledge as to the financial position of the broker. No doubt they felt that in some manner the Stock Exchange exercised sufficient control over its members to safeguard the deposits and to see that the transactions recorded for account of customers were bona fide purchases and sales.

The balance sheet of a stockbroker contains many items which are of such a technical nature that the majority of customers would be unable to form an intelligent opinion as to the finan-

cial condition or the business policies. Some of the factors which should be considered in this connection are as follows:

The adequacy of margin in customers' accounts and the marketability of the securities in such accounts.

The policy with respect to investments of capital in securities which it may be necessary to convert into cash at short notice.

The extent to which investments are made in joint ventures, syndicates and similar transactions and speculative accounts with other brokers.

The policy with respect to the amount of margin required from customers, so that securities bought for their account and not yet paid for may be used as collateral for money borrowed.

The segregation of fully paid for customers' securities so that they may not be used as collateral to obtain borrowed capital.

The amount of firm capital and the extent to which it is free or readily available in case of necessity.

The frequency of audits and verification of financial position by independent accountants.

The ratio of firm capital to assets.

Stock Exchange Questionnaire

In order to protect the public, the activities of banking institutions are regulated by National and State laws. They are under the supervision of special departments and furthermore are subject to periodical audits by representatives of these departments.

The business of a stockbroker is somewhat similar to that of banks, as it involves the receipt of money and securities entrusted by customers, which must be safeguarded at all times. Suggestions have been made urging

supervision over stockbrokers similar to that now exercised over banking institutions.

The New York Stock Exchange has recently adopted a more adequate control, or at least a method by which it may ascertain the financial condition of its members, their responsibility, commitments, policies, etc.

Late in the year 1924 the Governing Committee of the New York Stock Exchange adopted a resolution requiring all members of the Exchange and firms registered thereon carrying margin accounts for customers, to submit answers to a questionnaire and "... as of the date of each questionnaire cause to be made a complete audit of their accounts and assets, including securities held for safe-keeping, in accordance with such regulations as shall be prescribed by the Committee on Business Conduct, and shall file with said Committee a statement to the effect that such an audit has been made and whether it is in accord with the answers to the questionnaire. . . ."

The statement is to be signed by the member of the Exchange or in the case of a registered firm by each member of said firm and in all cases to be attested by the auditors.

The Committee on Business Conduct prescribes certain regulations as to the manner in which the securities and accounts are to be verified and specifies the classification of the data to be submitted in the answers to the questionnaire. This data is not summarized in a form which sets forth the financial status of the business nor does it indicate that the debit and credit ledger balances or long and short security values are in agreement. But the data to be furnished may be, and probably is, restated by the Ex-

change in a form which will enable those who pass upon the status of each member to have the necessary picture before them. The audit procedure prescribed is practically the same as that previously described in this article for the verification of the asset and liability accounts.

The questionnaire calls for the debit and credit balances of all ledger accounts under certain groupings or separations and the market values of the securities carried in the accounts included in the several groups. The market value of the securities in the "box" must be separated as between items listed and items unlisted on the Stock Exchange and further separated as to those having a market value over five dollars per share and those having a market value under five dollars per share. Neither the market value of securities in "safe-keeping" nor the value of any securities carried as "long" in customers' accounts, if fully paid for, are to be included. The total debit balances of customers' accounts are to be classified as to those (a) fully secured, (b) partly secured and (c) unsecured, respectively, with the aggregate market values of the securities applicable to each of the first two classes. The total ledger credit balances are also to be classified as between (a) amounts against market value of short sales of securities, (b) margins on open contracts in grain, cotton and other commodities, and (c) free credit balances. The market value of the short sales, and the equity or deficit with respect to the open commodity contracts, figured at the market, are also to be shown.

Certain questions are asked regarding the practice of pledging or loaning more of a customer's securities than is fair and reasonable in view of

the obligations of the customer to the broker, contingent liabilities, and accounts of members of the firm either individually or collectively, carried with other banking or brokerage houses which do not appear on the books of the reporting stockbroker.

While the questionnaire does not specify that the values of securities borrowed and loaned, failed to receive and to deliver are to be shown, it is advisable to include these values in order that the proof may be indicated for both ledger balances and security values. These are set up in parallel columns opposite the questions and the aggregate of the ledger debit balances should agree with the aggregate of the ledger credit balances. Likewise the aggregate of the values of "long" securities should agree with the aggregate of the values of the "short" securities.

From the information shown in the response to the questionnaire it is not a difficult matter to prepare a liquidating or equity balance sheet, that is, a balance sheet prepared on the assumption that all securities are to be sold, and short sales covered, as of the date of the balance sheet and the proceeds or cost of covering applied to the various accounts entitled thereto. Such a statement shows what the broker would be required to pay out to customers and others if it became necessary to close out the business or settle all of the accounts at the current level of market quotations. In other words, how the broker would obtain funds to liquidate all of the liabilities and return the capital investment and accumulated profits to the proprietors.

"Conscience Money" and the Indemnity Bond

An interesting combination of law and accounting appears in the following discussion which arose out of a decision by the Wisconsin Supreme Court in a case recently before it:

"My bookkeeper got away with \$100,000 in cold cash last week," the employer explained, "and I hold your surety bond for \$25,000."

"Why didn't you notify us before?" the Indemnity Company demanded.

"He went away Friday night, and we didn't have the slightest suspicion there was anything wrong till we got a letter from him this morning."

"Got a letter?"

"Yes, he wrote a full confession, said he didn't feel right in making such a big pull, and inclosed the key of a safety box where we found \$50,000 of the stolen funds."

"Well, that's certainly fine for us."

"How so?" the employer demanded.

"Clause 17 of the policy says that both parties shall share any recovery made by either on account of any loss in the proportion that the loss of each bears to the total loss."

"And how would you figure that out?"

"Easy enough. One quarter of the \$50,000 'recovery' comes to \$12,500, deduct that from the face of the policy, and it leaves \$12,500 for us to pay."

"Yes, but you insured me up to \$25,000 and I lost just double that amount."

"You've overlooked the 'recovery clause' in the policy."

"That clause doesn't apply to 'conscience money' that the embezzler pays back voluntarily," the employer argued, and the Wisconsin Supreme Court ruled in his favor.

Travels of an Accountant

By WALTER A. STAUB

The cultural influences of travel have long been recognized. Indeed, in an earlier day when traveling was frequently attended with much discomfort—or at least with a lack of many of the conveniences of today—travel was looked upon, fully as much as today, as a part of a broad education and of a full experience of life.

The nature of the public accountant's calling brings with it much necessity for travel and this in turn affords the cultural opportunities associated with travel. The visiting of new places, the contact with many different people, and the observance of customs and practices differing from those of one's home community, all combine to widen the observing man's intellectual horizon. Travel is one of the elements in a post graduate course in the school of life.

As I look back over the twenty-five years which have elapsed since I joined the staff of L. R. B. & M. as a junior at the Philadelphia office (then our only office) in January, 1901, I can see that the traveling which I have had to do from the Atlantic to the Pacific and from Canada to the Gulf, and even on occasion beyond that domain, on the firm's business has been of inestimable value to me in opening up new worlds of observation and interest, new subjects of study, and new stimuli of mental activity. I shall not attempt to give an exhaustive account of my travels during the past twenty-five years, but shall merely touch on them here and there for the purpose of indicating travels of value

and interest for which the opportunity might never have come to me had they not been necessitated by the firm's work.

Up to the time that I joined the L. R. B. & M. staff, my travels had been restricted to the states of Pennsylvania, New Jersey, Delaware and New York. Gettysburg to the southwest, and Niagara Falls to the northwest, marked my "Farthest West" from Philadelphia. When it was finally decided that I was to become a member of the L. R. B. & M. staff—in those days, particularly, when the total organization from partners to office boy did not number over about a dozen persons, it was a serious matter to add another member to the staff, as witness the fact that I was interviewed by three of the then four partners before being finally engaged!—I looked forward with expectation to the traveling which I understood the work would occasionally, if not frequently, require. And I was not disappointed. Plenty of it came to me and there were a number of years in which the time spent "on the road" must have aggregated about half the year.

The first engagement to which I was assigned was an out-of-town audit. I still remember distinctly the Monday morning in January, 1901, when two other assistants and I—a considerable percentage of the staff!—met Mr. Edward Ross at the Reading Terminal to embark for Hazleton, Pa., near which were located the anthracite coal mines and offices of one of the firm's most important clients. Because my

travels had been so limited up to that time, my traveling equipment was also rather limited. I recall that I carried a bag which was of rather ancient vintage and which had first been acquired by the family when an uncle of mine had been attending school in New York back in the eighties. Bags in those days seemed to have had more staying qualities built into them than is the case today.

The hotel life in Hazleton, the daily journey on the trolley—sometimes in a snowstorm—out to the mines, and the initiation into the work of the public accountant, all had much of interest for me on this first assignment. Under Mr. Ross' generalship the work of the audit moved rapidly, smoothly and effectively forward, and I was impressed with the way he directed the audit and kept in touch with the different phases of the work which were being handled by different members of our group. Each day he compared our progress to date with the work accomplished during the same period of time when the previous year's audit had been made of the same company's accounts. In those days it was not customary to return home for the week-end, even though one was as near Philadelphia as Hazleton. Nevertheless, we obeyed the scriptural injunction to "rest on the Sabbath day." In about ten days our work was completed and we returned home on the Lehigh Valley's Black Diamond Express, with which our train from Hazleton connected at Mauch Chunk.

My next out-of-town assignment was to Sterlington, New York, again with Mr. Edward Ross. There we went over the accounts of the company which owned and operated the Sterling iron mine, which had been discovered long before the Revolution.

From this mine came ore which was smelted into iron for the huge chain which was stretched across the Hudson to bar the passage of British war vessels up the river during the Revolutionary War. An historical account of the Sterling mine and the making of the chain and the transportation of the great links across country to the Hudson River appeared in the April 1921 issue of the L. R. B. & M. JOURNAL.

During the next ten years cities and towns in all parts of Pennsylvania became familiar tramping ground. The scenic beauty of my native state was borne in on me by my trips up the Lehigh and Lackawanna valleys, down into the rich agricultural section in Lancaster county, out along the romantic Juniata, and up into the northern central part of the state. Also, I became well acquainted with the \$2 a day American plan hotel, which in those days was the hostelry typical of Pennsylvania towns. Some were good, some were not so good, and others were a trial to the flesh. In no other respect has the comfort of travel in America increased more in recent years than in the improved type of hotel which one now finds in the smaller cities and towns throughout our country.

Toward the end of 1902 I made my first trip west of the Alleghenies. At that time we still had only two offices—Philadelphia and New York, the latter having been established during 1902—and our engagements in the states west of Pennsylvania and New York were still comparatively few. Cincinnati was my destination and the scene of my labors for ten days or two weeks. My stay there was broken up by a hurried trip to Elmira, New York, where I was called on short notice to testify in a bankruptcy case on which

I had worked for a considerable time in 1901. Cincinnati has always had a large German element in its population with the consequent result that in those days the brewery, the saloon and the beer garden formed an important part of its municipal equipment. For this reason it might well be called the American Munich and I have always felt that it was entitled to a share of the dubious fame which Milwaukee has enjoyed.

Cincinnati, with its numerous hills on which the newer residential sections are situated, is picturesquely located. It is one of the gateways to the South and I recall walking across one of the bridges over the Ohio River so that I might set foot in Kentucky and thus make my first fleeting visit to the Southland.

Shortly after—early in 1903—I made my first real southern trip. If my recollection serves me correctly, it occupied about two months and embraced engagements in Birmingham (Alabama), Macon (Georgia), Tampa (Florida) and Cedartown (Georgia). There was much of novelty and interest for me. The climate itself was a revelation; to work with windows and doors wide open in January was a new experience, though I observed that when it rained the air became chilly and penetrating.

Birmingham was a young city—I don't recall meeting any one who had been born there—and was the center of the south's new iron industry. Both coal and iron mines were right at the city's edge and iron plants, such as blast furnaces, rolling mills and pipe and other foundries, were in different parts of the city. It was in those days already a bustling city and had, I think, more of the business spirit of the North than any other southern city.

After a number of weeks in Birmingham, I went on to Macon. This was just the opposite of Birmingham. It was one of the older cities in the South and one noted a less strenuous atmosphere than in Birmingham. Here I had an experience of how a bit of thoughtfulness may minister to another's pleasure. I was working in the gas company's office one morning when I thought I heard my name spoken by some one at the cashier's window. I concluded, however, that I must be mistaken as I had no friends in the city and my contacts with residents of the city had thus far been limited to the staff in the client's office and in the Hotel Lanier at which I was staying. In a moment, however, the cashier came over to me and said that a gentleman at the window wanted to speak to me.

It turned out to be "Bob" Jenkins, an old friend of the members of our firm, who had mentioned to Colonel Montgomery that he was about to make a trip to the South and to whom the Colonel suggested that if Mr. Jenkins should visit Macon he look me up. At the time he called I had been away from home over a month and while I found the customs and language of Southern folks interesting, I was beginning to feel a bit homesick for the North. Mr. Jenkins' visit was like a bit of home to me. We had luncheon and a stroll together—he was just passing through Macon, not even stopping over night—and the brief fellowship with some one from the North as companionable as Mr. Jenkins was a delightful incident of my stay in Macon.

From Georgia I went on to Florida, over twenty years ahead of the great boom! In those days, particularly, southern trains weren't particular

about making good on published connections or living up to the timetable. I missed connections at Jacksonville both en route to, and on the way back from, Tampa. This necessitated my staying a day in Jacksonville and I took advantage of the opportunity this afforded me of taking a trip out to an ostrich farm on the St. Johns River, seeing the alligators, etc. My work in Tampa required only a few days time and my stay there was without incident. Unfortunately, I did not have the foresight to invest \$10 or \$15 in a piece of real estate and thus be a millionaire today. Well, I suppose I am in a class with Ponce de Leon. He, too, visited Florida some years prior to the real estate boom and also failed to take advantage of the low prices then prevailing for Florida land.

On the return trip from Tampa the efficiency of southern railroad operation in that day was evidenced by the fact that the fire in our locomotive was permitted to accumulate an undue amount of clinkers and then went out. We lay out in the country for some time until another locomotive came on the scene and pulled us on our way.

On a Sunday morning I arrived in Cedartown, a cotton mill town up in the hill country of Georgia. It may sound a bit incongruous when I say that, in accordance with my usual Sunday custom, I went to church and that I stayed at the Booz House. I hasten to explain that the name of this hotel—which from its appearance, both inside and out, might have been established by a forerunner of Christopher Columbus—was not significant of anything but the family which conducted it.

At Cedartown I joined Mr. Lybrand and enjoyed his company for the rest of this trip.

After completing our work at

Cedartown, we went to Chattanooga over the Western & Atlantic Railroad (a part of the Nashville, Chattanooga & St. Louis Railroad) along which Sherman had made his famous "March to the Sea." In the station at Chattanooga we saw the locomotive which formed the storm center of that stirring incident during the Civil War, when a group of Union soldiers passed through the Southern lines in disguise, took possession of a train and started off down the railroad with the intention of burning the bridges and tearing up the rails here and there for the purpose of destroying the usefulness of the railroad to the Confederate army. Unfortunately, the "breaks" were against the success of the carefully planned enterprise and the whole group of Unionists was finally captured. A number of the party were hung as spies and the others spent the rest of the war in Southern prisons. The sight of the old locomotive in the Chattanooga station gave me a real thrill because in my boyhood I had read with keen zest a book called "Stealing a Locomotive" which had been written by one of the survivors of the ill fated expedition.

We left Chattanooga on a night train and the next morning we had a wonderful ride along the banks of the French Broad River through the mountains of the Carolinas. In due time we reached Asheville and spent part of the day there. A drive in a carriage—automobiles were hardly out of the experimental stage in 1903—afforded us some glorious views in the mountains around Asheville, including a sight of Mount Mitchell, the highest mountain in the East. The next morning we were in Philadelphia and my first Southern trip with all its new experiences and its many op-

portunities for interesting observations was at an end.

The next year, 1904, brought with it my first trip west of the Mississippi. This was a visit to the Congress of Accountants held at St. Louis in connection with the Louisiana Purchase Exposition in that city. An incident of the preparation for this first national convention of accountants in America was a contest open to any member of the staff in the offices of public accountants for the best paper on the subject of "Mode of Conducting an Audit." I had the good fortune to be the successful contestant. Mr. George Wilkinson, Secretary of the then Federation of Societies of Public Accountants in the United States of America, the organization under whose auspices the Congress was held, urged me to attend the Congress and to read my paper there. The suggestion appealed to me for two reasons, one the opportunity to meet the leaders of the profession who were to be in attendance and otherwise to enjoy the benefits to be derived from attendance at such a gathering, and the other because it would give me an opportunity to enjoy a belated honeymoon. I had gotten married a few months before, but, with the usual perversity of the accountant's engagements, there had been opportunity at that time for only a few days absence from the office.

The Congress of Accountants not only met fully, but surpassed my expectations. It was responsible in a considerable degree, I believe, for the creation of a national consciousness on the part of public accountants in this country. It gave an impetus to the recognition of the worth of the accountant's work to the world of business and finance and to the movements

for improving the accountant's practice and procedure. At no convention of accountants since—and I have attended quite a number of them—have the papers presented been of a higher order than those which were read at the gathering in St. Louis. Those who may never have perused the proceedings of the Congress of Accountants will, I believe, agree with this opinion if they will take occasion to familiarize themselves therewith.

For the first time, representatives of the two great English societies of accountants attended a gathering of American accountants. This gave added dignity and importance to the occasion. The representative of the Society of Chartered Accountants in England and Wales was its immediate past-president, Mr. (now Colonel) Francis William Pixley, who read one of the important papers of the Congress on "The Duties of Professional Accountants in Connection with Invested Capital Both Prior to and Subsequent to the Investment." The acquaintance there initiated between Colonel Pixley and the members of our firm led to an arrangement a few years later for his firm, Messrs. Jackson, Pixley & Co. to act as our London correspondents and our firm in turn to act as their American correspondents. This agency arrangement has now been in force for almost twenty years with mutual satisfaction to both firms and with resulting convenience to those of our clients who have business abroad which requires the services of public accountants.

The social and recreative side of the Congress was also of an unusually pleasing nature. The holding of the Congress in one of the exposition buildings, the opportunity to visit the exhibits, and the cordiality which was

very marked among those attending the Congress, all tended to create an atmosphere which far surpassed that of the usual convention gathering.

Before leaving the Congress, which meant much to me in my young accountant's life, I feel that a word of tribute to the man, who above all others was responsible for the conception of such a national gathering of accountants and for its brilliant success is not out of place. Mr. George Wilkinson, with whom the idea of the Federation of Societies of Public Accountants in the United States of America originated, and who self-sacrificingly effaced himself when in 1905 there was an opportunity to bring about one national society of accountants by merging the young and aggressive federation with the older and more staid American Association of Public Accountants, conceived the idea of the Congress of Accountants and of giving it an added drawing power by holding it in connection with the Louisiana Purchase Exposition. For almost a year prior to the meeting of the Congress, Mr. Wilkinson devoted much more time to the arrangements for it than he gave to his own practice. Under the joint guidance of himself and the able chairman of Congress, Mr. J. E. Sterrett, the program ran off smoothly and such events as the banquet at the Mercantile Club and the final luncheon at the Tyrolean Alps in the Exposition grounds were a real delight to those present. The profession owes Mr. Wilkinson a debt of gratitude for his generous services to it at a time when it had not yet attained to the standing it enjoys today as the handmaiden of commerce, industry and finance.

(To be continued)

Constructive Services

(Continued from page 7)

come to a point where broad readjustment throughout the organization was required to make it conform to the well organized type of business. The company's activities were conducted by many separate departments or divisions and each small division was practically a self-contained unit with its own directing head and necessary clerical and other assistants. There was an immense duplication of effort and at times conflicting responsibilities between various department heads. The need for adjustment to the functional form of organization could not be questioned. The consolidation of the various self-contained units into one large general organization, and the consolidation of several small accounting offices at one central office, wiped out over fifty clerical positions and eliminated volumes of records which served no useful purpose. The consolidation of the purchasing activities into one purchasing department and the placing of the shipping, receiving and packing activities under one head disclosed that fifteen other employees were without any obvious means of employment. The consolidated accounting department with its reduced personnel had no difficulty in maintaining all the necessary records and in preparing comprehensive monthly statements upon the company's various activities.

Other interesting cases could be reviewed, but I believe enough have been mentioned to show that the constructive field of accountancy is full of worthwhile opportunities for service. There is no place in it, however, for the theorist or pure critic. Its greatest rewards are for the doer of things.

The L. R. B. & M. Journal

Published by Lybrand, Ross Bros. and Montgomery, for free distribution to members and employees of the firm.

The purpose of this journal is to communicate to every member of the staff and office plans and accomplishments of the firm; to provide a medium for the exchange of suggestions and ideas for improvements; to encourage and maintain a proper spirit of cooperation and interest and to help in the solution of common problems.

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A Message to the Staff

By WILLIAM M. LYBRAND

Every man who is worth while has in him the ambition to succeed. Success depends not alone on natural ability. It was Theodore Roosevelt who said that there are two kinds of ability—one born with the individual—a gift from the gods as it were—the other developed by work, study, observation, and experience. Those who have been favored by great natural ability may seem to begin life with an advantage over their less fortunate fellows, but it is a comforting reflection to know that success need not be despaired of by the latter group, in which by far the greater number of us must be included.

A man who becomes a member of the staff of a public accounting organization generally does so with some definite object in mind. It may be that his immediate desires extend no further than to establish himself permanently on the staff, with the expectation that with increased responsibilities will come greater remuneration. Others may hope that the knowledge and experience gained in their work will qualify them for positions with clients, if especially advantageous opportunities arise. Ambition may, in other cases, kindle the desire for greater rewards, and a participation in one form or another in the management of the business may be the goal which they will strive to reach.

All of these are legitimate objects. It is one of the happy incidents of the accounting profession that it does offer opportunities of various kinds to those who join its ranks.

I take it that what each man would like to know is—what are the underlying and fundamental obligations

that must be most faithfully observed by me if I am to succeed. If I were obliged to compress this advice into a single sentence, I would say that it would be best expressed by the statement, "the quality of the service you render to the client." Just think about that for a moment and consider what it covers.

(1) *It means that you must be qualified.* You are engaged in the practice of a profession. A professional man is one who by reason of special experience, knowledge and ability, claims to be able to advise or assist his client in matters pertinent to that profession. Therefore, as an accountant you must understand accounts in the broadest sense—their construction, their use, and their application to the particular needs of the client on whose work you may be engaged.

These qualifications are not born in any one. You have got to acquire them by study and experience. If you are in doubt as to how to proceed to the best advantage, consult with those of your fellows who have gotten further along, or take your problem to a member of the firm. Any well considered and definite request for help along this line will meet with a sympathetic response. Just remember that we all were at one time in the same position you now occupy.

(2) *It means that you must be loyal, honest, and industrious.* Loyalty and honesty are key words in every formula for success. I do not use the word honesty in the narrow sense—we know you are that—I have a broader meaning in mind. You must have the courage of your convictions, a will to give to the client the best that is in you, a resolve to do your whole duty to the client and to

the firm. These may seem like simple and obvious requirements. Perhaps they are, but think about it, and in whatever you do—intensity of application to the work, required hours of daily attendance on the job, careful consideration of the relative importance and time consuming elements of the engagement—have in mind the client's interests. There can never be a better maxim to bear in mind and to use than that old but supremely comprehensive one—"Do unto others as you would that they should do unto you."

(3) *It means that you must be constructive in your ideas.* Put yourself in the client's place. Think what you would want if you were he. Do your work and make your recommendations from the client's viewpoint. Don't be satisfied alone with a recital of what you have done. That may be and often is necessary, but the client is interested primarily in what you can tell him that will help to make his business more successful and prosperous.

(4) *It means that you must think success and be determined to achieve it.* A defeat feared is a battle half lost before the conflict begins. Be willing to combat difficulties; assume and do not evade responsibilities; do not be too mindful of yourself; be interested only in the big objective.

What I have written may seem like homely and elemental advice. It is. Yet simple and elemental principles underly all true progress. The great popularity of President Coolidge with the people at large, is due to their belief that he relies on the application of simple and fundamental principles in the government of the country to insure prosperity and contentment.

Corresponding rewards come to the

man on the staff who makes the most of his job. The clients value his services, find new uses for them and are willing to pay for them. The "pay check" of the man in the long run is inevitably based, and must necessarily be, on his value to the client. The services of such a man are always in demand and it is possible to remunerate him accordingly.

One happy feature of a large organization is the opportunity it affords for promotion to posts of greater responsibility. Not every member of the staff can be a partner or a manager, but if you will reflect on the growth of our firm, its numerous offices and the men who fill the important positions in them, you will see that opportunities for advancement have not been, by any means, entirely lacking.

I do not want to end this little homily without repeating what I said in the beginning,—your success and the success of the firm depend on the kind of service you render the client. That is far and away the most important factor. No accounting business can be permanently and increasingly successful unless it is founded on the bed-rock of good service to the client.

A Long Time Friend

One who was since early in the nineties a friend of members of our firm passed on to the great beyond during the past month, after having spent a long and fruitful life in the industrial world. Mr. Louis R. Lemoine, for many years president, and latterly chairman of the board of directors, of the United States Cast Iron Pipe & Foundry Company, was an example of that type of American business man who, through industry,

persistence, patience and genius, attains to honorable and outstanding success in the business world.

The "By-the-Bye in Wall Street" column of the Wall Street Journal of April 30th contained the following tribute to Mr. Lemoine's constructive genius, which we believe merits a place in our JOURNAL:

One who gave a distinctive industry to his country, making that industry important and prosperous, passes in the death of Louis R. Lemoine. More than two score years ago he came through apprenticeship experience with doughty famous Joseph Wharton, constructive genius who fathered New Jersey Zinc on its wonder way, the same who sponsored Bethlehem Steel to mammothness.

In the 1880's cast iron pipe making was an industrial infant. At Burlington, in New Jersey, slow progress was being made by the McNeals—name since become notable in American metal working progress. Through corporation merger—and the brains of Louis Lemoine were of the prime assets—little plants developed into ambitious undertakings, till under the title of the United States Cast Iron Pipe & Foundry Co., the country became familiar with such enterprise as observing Wall Street was pleased to approve. Oracles who had gloomed failure were obliged to recognize constantly expanding successes, production successes, utilization successes, finance successes. And every advance was imprinted Lemoine. Perception of master workman, executive ardor, economic assertiveness were his applied qualities. He evolved weakling into trade giant.

Of the old-fashion, he loved work and honesty and cooperation, hated pretense, waste and every trade non-essential. Of such fundamentals was the texture of his organization.

Wall Street chose to make sometimes a mystery and speculative balloon of his company's stock—never by aid or sponsorship of his. "We are establishing an investment" That was his faith to the end as from the early days when energy and aspiration were confronted many a time by dismal prospect. Basic with him was appreciation of the collaboration of his operating executives and the practical fraternity of finance associates.

One ambition of the achieving veteran was to have the responsibilities of his chairmanship and the forward-going programme that he mapped pass to one who in recent years has been closest of advisers and supporters—

(Concluded on page 35)

Some Aspects of the Examination of Customers' Accounts

By PAUL E. BACAS

The auditor makes his examination of the customers' accounts primarily for the following purposes:

1. To determine their value for balance sheet purposes.
2. To ascertain the condition of the accounts.
3. To make recommendations to increase the volume of business or the profits.

Many auditors spend too much time on the verification of the arithmetical accuracy of the accounts and of the lists of balances and practically no time on those phases of the work which might be of material assistance to clients. The purpose of this article is to indicate how the auditor may get the best results from the time devoted to the examination of the accounts receivable.

It goes without saying that it is one of the duties of the auditor to ascertain whether the accounts receivable ledgers are in agreement with the control accounts and to bring to the attention of the client differences in the figures which might cause serious losses or which indicate extreme carelessness on the part of the employees. The examination of the balances should disclose such conditions if they exist and the auditor's judgment and experience should make possible a decision without delay relative to the seriousness of the condition. This part of the work, while it may not be omitted, may hardly be considered as a

primary purpose of an examination of the accounts receivable.

The procedure and some of the special points involved in the three primary purposes previously mentioned will now be discussed.

1. *Determining their value for balance sheet purposes:* A large portion of the work of the auditor has to do with the inspection, the grouping and the verification of figures or groups of figures. However, in every case it is the relation which such figures bear to certain facts or conditions that interests, or should interest, the auditor and not the figures in themselves. Sometimes the figures are considered in connection with certain time elements but, again, unless the facts or conditions are kept in mind the figures and the time element cannot in themselves enable the auditor to make intelligent decisions. These words are written in an endeavor to show the futility of the process commonly known as "ageing" or periodizing of accounts receivable as a means of determining the value of accounts receivable for balance sheet purposes.

The question then arises, how will the auditor estimate the value of the accounts as a whole? He should do that which a competitor of the client who was considering the purchase of a going business would do under the circumstances. He would note for discussion accounts of material amounts which appear to be overdue, say balances representing sales made more than ninety days prior (terms,

2 per cent ten days, 60 days net) and which from past performances appeared to be doubtful of collection. Information would be obtained from the credit man and the credit files relative to the possibility of collecting such balances in full. From the business man's experience, an estimate of the probable loss on each of such balances would be made. The total of such estimates would represent the estimated shrinkage on balances representing sales made more than ninety days prior.

As to the balances representing purchases within ninety days, provision would be made through an amount determined by applying to the charge sales for the last ninety days a percentage based on past experience, having in mind present conditions and any large or unusual balances.

Such a process, as far as the auditor is concerned, will have many advantages. He will obtain a more accurate estimate of the probable loss. It will provide an opportunity to ascertain whether the credit department has dependable records. The discussions with the credit man should enable the auditor to gauge the capabilities of the credit man.

2. Ascertaining the condition of the accounts: It is advisable that, in addition to considering the value of the accounts, the auditor shall satisfy himself that the accounts as a whole are in good condition. If the accounts are not in good condition, there is a likelihood that losses may result and that additional expenses may be incurred.

There are certain conditions referred to below, which will be found to a limited extent in many customers' ledgers. If such conditions are re-

ceiving the attention of the ledger clerk and it does not appear that they are becoming more aggravated, the auditor may merely make a note to investigate during the next examination. However, if the conditions are not under control and the number of accounts affected appears to be increasing, it is the auditor's duty to advise the client and to make suggestions for improvements. Some of the conditions which might cause losses will be discussed briefly.

There may be unadjusted balances of long standing in the accounts for which credits for allowances or returns should be issued or which require a special collection letter.

Some customers, over a period of years, may have made payments in round sums without making settlements for any definite purchases. Such accounts may require several credits to place the balances in agreement with the amounts appearing on the customers' books. It must also be considered that in case of a dispute on open accounts of such long standing it might be very difficult to prove the claim for the balance owing.

The ledger clerks should indicate the debts which are settled by each payment or by a group of payments so that a list of the unpaid invoices may be prepared from the ledger without difficulty. Unless this is done currently upon receipt of the customers checks and memo of payment, it may be very difficult to do so at a later date because adjustments may appear on the memo of payment now destroyed which have not received attention.

The ledger clerks may open several accounts for the same person due to errors in recording names, initials or addresses on sales slips or other rec-

ords. If such is the case, there may be considerable difficulty in making collections or allocating cash received from customers in settlement of accounts. The auditor should ascertain whether the ledger clerks and the credit department are making every effort to correct such errors and to minimize the possibility of their recurrence.

Especially in the case of retail businesses, there may be a number of accounts in the names of persons who cannot be located. If such accounts do not receive immediate attention, the possibility of locating the customer is minimized and losses may result.

If a credit limit has been placed on the accounts, the auditor should note whether the balances are allowed to exceed such limits and if so whether special authorizations have been issued. Probably the credit man expects the ledger clerks to keep him informed when the limits are exceeded.

There may be credit balances of long standing which should be liquidated by sending out checks, by transferring the credits to the customers' accounts to which they should have been credited originally or by making other suitable adjustments. Delays in adjusting such matters will irritate the customers and cause a loss of business.

3. *Making recommendations to increase the volume of business or the profits:* The auditor examines the accounts receivable to determine their value for balance sheet purposes. It is his duty to note and bring to the attention of the client conditions which may cause losses. The training and the experience of the auditor should also qualify him to note tendencies which may cause losses in volume of business or profits and to make suggestions to increase that portion of the

business which appears to be the most profitable.

A few of the tendencies which might be noted by the auditor are set forth in the following paragraphs:

It will be noted that in many instances customers will have fairly large balances continuously without making purchases in proportion. For instance, a customer might owe approximately \$500 all during the year while his monthly purchases may average approximately \$100. At 6 per cent interest per annum, it costs $2\frac{1}{2}$ per cent of the sales to carry this account. If the margin of net profits is small such accounts should be discouraged.

Some customers have a large number of return purchases. The handling and the recording of these returns, including the damage to the merchandise, may be quite an item and it may be found that some customers' accounts are not profitable because the number of purchases returned is excessive.

The auditor may find that in a business where the average customer should make purchases monthly or oftener; there are many customers who buy once or twice a year and numerous other customers who have made only one purchase. The client may spend large amounts for advertising and he may not realize the extent to which this condition exists until it is brought to his attention by the auditor.

Some concerns lose money because their customers are allowed to take cash discounts after the discount period has expired. Often the customers know that they can take advantage of the vendor and make payments thirty or even sixty days after the discount period has expired. Customers will continue such a practice as long as no objection is made thereto, and the

client may think that if he attempts to enforce the discount terms he will lose business. The auditor knows from his experience that many concerns enforce the discount terms strictly without loss of business. It is the duty of the auditors to see that the client does not suffer unduly through the allowance of discounts which have not been earned.

The terms granted by the client may be very liberal, and in addition many customers may pay thirty or sixty days after the due date, thereby causing an increase in the amount of the outstanding accounts and necessitating additional loans to carry them. The auditor knows from his experience that customers may be held to the terms (even where discounts are not involved) without loss of business and probably with a saving in the amount of bad debts.

General: It is not claimed that the auditor should note the conditions or tendencies which have been discussed if they exist to a minor extent and are of relatively slight importance. Also, it is recognized that limitations of time do not always permit detailed or unlimited inquiry into all the collateral features of accounts to which reference has been made herein. The auditor's training and experience should be such, however, that incident to the examination of accounts receivable he will recognize and note unusual conditions and tendencies which may cause losses to the client. It should not be necessary to prepare exhaustive lists of instances noted. An explanation of the general condition illustrated by several striking instances should suffice to bring the matter forcefully to the client's attention.

The Price of Success

By Edgar A. Guest

If you haven't the patience to work and wait,
To build with precision and lay your brick straight,
If you haven't the courage to grin now and then
When the structure falls down, and to start in again,
Just remain where you are and be satisfied, too,
For the hazards out there will be too much for you.

If you can't stand alone in the thick of the fight,
And persist in your course when you know you are right;
If you can't keep your faith when it's greeted with sneers,
And still go for the goal which but dimly appears,
Don't leave the broad highway to carve out a new,
For the hardships out there will be too much for you.

If you can't get along without flattery or praise,
And the comforts and joys of these wonderful days;
If you tire over quickly or cringe at a blow,
Or think it is no use when your progress is slow;
If you're one who must have everything his own way,
Then the price of success you're not willing to pay.

But if you will take all the fates have to give,
Stand hardships and setbacks, still glad that you live;
If you'll cling to your faith and keep plodding along
When disaster besets you and everything's wrong;
If you're willing to battle and never give in,
Go after your dream, for in time you will win.

Some Oddities in the History of Taxation

By N. B. BERGMAN

Is it lawful to give tribute unto Caesar, or not? . . .

And they brought unto Him a penny and He saith unto them, "Whose is this image and superscription?" They say unto Him, "Caesar's." Then saith He unto them, "Render therefore unto Caesar the things which are Caesar's; and unto God the things that are God's." (Matthew xxii:17-22).

Taxation is as old as man himself and in some form has been a part of his evolution from the savage state to his present highly civilized state. I shall, therefore, confine myself to a few historical references to the subject as handed down in various more or less heavy tomes to which access may be had at the public library. Before proceeding to do this, I could not help recalling Washington Irving's observation that a clock which has stopped altogether is more desirable than a clock which is wrong; the reason being that the former is correct at least twice a day. With this warning, I was almost tempted to disobey the muse and thus do good in a negative manner; on the other hand, I reasoned, one owes a debt to posterity! Besides, I was born on March 15, 18— (suffice to state it was Anno Domini), a day which has come to mean much to the man who is in receipt of an income. If any member of the organization wants to lay the blame for this effort, let him ascribe it to the failure on the part of the firm to keep me busy between 11 P. M. and 9 A. M. during the tax rush. (I did not say between 9 A. M. and 11 P. M., please note). This offering, I fear, will be found to be very much along the lines of the Boston infant's de-

scription of the dictionary, "interesting, but disconnected."

When the people of the United States gave as one reason for declaring their independence the fact that taxes had been imposed without the consent of the taxed ("for imposing taxes on us without our consent:"—*Declaration of Independence*) the people of England were almost as badly off, since only one-tenth of the people of England were at that time represented in Parliament. It was a step in the desired direction, however, and indicated the trend of public feeling in respect of the various imposts which had been laid for centuries without the consent of the people taxed. The Magna Charta set forth that taxation would be imposed only for the "general course of the nation; ransoming our person, making our eldest son a Knight and once for marrying our eldest daughter." In 1629, Parliament passed a measure, "That no man hereafter be compelled to make or yield any gift, loan, benevolence, tax or such like charge without common consent by Act of Parliament." Forced loans were common, however, prior to the act of Parliament referred to; in 1210 the Jews of both sexes were seized, imprisoned and tortured, whereupon they gave the King all they had

(the last eight words are superfluous).

In the United States, we have at present not only the most honestly administered income tax laws of which we have any record but the taxpayers are, on the whole, thoroughly honest in declaring their incomes. We are far removed from that period in our history when a high state court decided that "perjury in connection with a man's tax lists does not affect his general credibility under oath." This was an old story even at that date, for Charles Bradlaugh tells us that the land tax (which followed the system of subsidies still operative in the reign of James I) came into effect when the King complained that the aristocracy defrauded him by underrating their incomes. D. A. Wells mentions that in 1868 an eminent American lawyer stated "that a people can not prosper whose officers work and tell lies. There is not an assessment roll now made up in this State (New York) that does not both tell and work lies."

The Encyclopedia Britannica tells us that the word tax is connected by derivation with the word *tangere*, meaning *to touch*. The fact that in the same inspired source book (where a lot of us get our original ideas), the subject next treated is taxidermy, which has something to do with *skinning*, indicates clearly that a great deal of humor exists in the Encyclopedia even if it is absent elsewhere in England.

In discussing the history of taxation, it should be borne in mind that an income tax, as we know it, is comparatively new. The first income tax was levied in England in 1798 at 10% with certain abatements and although repealed in 1802 it was reimposed in 1803. It was abolished in 1815, and revived again in 1842 when Peel inaugurated his great free-trade reform.

As the income tax is generally regarded as a tax which has found great favor in England it is of interest to read that Gladstone once declared that the income tax did more than any other tax to demoralize and corrupt the people.

Our own income tax levied in the civil war taxed incomes under \$5,000 at 5% with an exemption of \$500 and house rent actually paid; incomes in excess of \$5,000, and not in excess of \$10,000, 2½% in addition; income in excess of \$10,000, 5% additional with no exemptions or allowances at all.

Under the feudal laws established by William the Conqueror, property consisted of practically nothing but land. He had made a sort of assessment roll of all land in the country, called the Domesday Book (patterned after the one originated in King Alfred's reign), and this was the basis of assessing the land tax.

In the good old days the governing authority did what Kipling says of Homer, "What he thought he might require he went and took." In 1329, under the practice in England of letting out the customs, the customs were farmed out for £20 per day. This practice was abolished in 1671.

Many of the old taxes may be regarded as devices for the private benefit of the monarch. Some of them were most probably referred to at that time as "nuisance taxes," just as our excise taxes levied in the past several years were so regarded. The poll tax was a favorite form of levy. In 1377, four pence per head was the rate for every man and woman above 16 (the rebellion in England under Wat Tyler grew out of the efforts of an inspector to verify the age of Wat Tyler's daughter). At one time

(1723) there was a Papist tax. In 1695, taxes were levied on weddings, bachelors and widows. In Puritan times (we are told by Dowell) a weekly meal tax, or the price of one meal per week, was levied. This tax produced £100,000 per year. A sales tax was imposed at one time, but it was hateful to the people. The sales tax in Spain (the Alevala, as it was called) almost ruined that country. In 1622, a house tax of two shillings was imposed in England for every hearth or stove in every dwelling house; this was called the hearth or chimney money. With further reference to the poll tax, the tax "shark" interested in rates of tax might be interested in knowing some of the rates imposed in 1641 (fortunately, the most our tax department is expected to carry in its head is the law back to 1909):

An English or Irish Duke	£ 100—
do Marquis	80—
do Earl	60—
do Viscount	50—
do Baron	30—
Gentlemen that have £100 per annum	5—
Every merchant stranger; at sea	10—
Every merchant stranger; at land	5—
Doctor of law & physic	10—
do if Papists	20—
Every man that can dispense £20 per annum	5 shillings.

The difference in rates on merchant strangers may have been due to the fact that said stranger on land could be made subject to other imposts. Note the tax on the man who could dispense (spend?) £20—. In 1779, a tax of one penny per mile was imposed on post horses. Is it any wonder that Sir Robert Walpole made recommendations for "simplifying the taxes, abolishing the numerous petty,

complicated imposts, which checked commerce and vexed the fair trader, and substituting in their stead more equal and simple taxation." One might be led to think that the framers of the 1926 Act had been reading up on the subject of nuisance taxes. The matter was probably best summed up by Sidney Smith: "The schoolboy whips his taxed top; the beardless youth manages his taxed horse with a taxed bridle, on a taxed road; and the dying Englishman, pouring his medicine, which has paid seven per cent, flings himself back on his Chinz bed, which has paid 22 per cent and expires in the arms of an apothecary, who has paid a license of a hundred pounds for the privilege of putting him to death."

A statement of receipts and issues (expenses) of the crown, as of March 1, 1661, shows an excess of the latter in a total of £235,407—. There had not yet been introduced the modern game of financing by the creation of a national debt. The aforementioned expenses include £600,000—for the navy and £30,000—for Ambassadors and their *Intelligence*. There is also an item of £5,000—for "Angel Gold (For the King's Evil)." This last was one of the prevailing "grafts," and was doubtless paid to the King for performing alleged cures of sick people.

It is of interest to us in the United States to know that in D. A. Wells' book, he states that the national debt of England was increased by £116,000,000—as a result of the difference with the American colonies. This loss did not take into account the loss of the colonies themselves.

About 1786 there was proposed in England a reduction of the national debt and, of course, there ensued a

series of economic questions touching on taxation. In 1812, the question was raised as to "the injustice of fixing the same ratio of taxation upon incomes derivable from uncertain and professional sources and life and terminable annuities, as upon that derived from landed estate, government funds and the corpus of property held with certainty or in perpetuity;—" This touches upon some questions which are familiar at the present time.

On the subject of inheritance taxes, the student might be interested in knowing that in Rome, in the reign of Augustus, a tax of 5 per cent was imposed on all legacies and successions over a certain amount. The historian tells us that Rome began to impose taxes at home when the plunder of the provinces was coming to an end. When the taxing began, it appears that nothing escaped. A tax on burials, levied in both Rome and Britain, while the Romans occupied Britain, is supposed to have caused the famous revolt led by Queen Boadicea. While on the subject of Roman taxes, it is of interest to read that the vineyards were carefully measured and taxed at an estimated value based on the average produce for *five years*. To those engaged in the computation of goodwill, or values of capital stock, under the procedures in our own Revenue Bureau, the period of five years will have a familiar sound.

It occurs to me at this time that a tax on property values where such values are based on earnings therefrom is in effect an income tax, which leads me to the belief that a property tax may possess some virtues not readily appreciated. In any event, since there can be no civilization without government, an adequate supply of revenue

from the persons and property of the people governed is necessary to government, whether based on land values or any other measure. In earliest times, slavery and the preponderance of agriculture went hand in hand, and the tax on land was a logical one. As civilization advanced, slavery broke down and we had the change to capital and free labor which, in turn, multiplied the forms of property. Later, when the nobles were largely exempted, and the wealthier citizen could purchase immunity from taxation of land, excise taxes (such as the capitation, or poll tax) were introduced.

Evasion became so palpable that in 1592, there were not over five men in England assessed on their lands at over £200—; and to take a jump ahead, it might be pertinent to state that in 1872, with an exemption of \$2,000, out of a population of 39,000,000 in the United States, only 72,949 admitted under oath any income above the exemption! It will thus be seen that the effect of tax evasion in all countries was to stimulate the tax gatherers to new means of obtaining taxes. In Rome, prevarication under oath was held to be a capital crime, and was held to include treason and sacrilege. The tax gatherers were empowered to administer torture where the *desired* amounts of tax were not reported. A Greek historian, who lived in the fifth century, tells us that the date for the collection of tax "was announced by the tears and terrors of the citizens." The fact that capital vanished from the Roman empire, and agriculture was ruined, was one of the early evidences of the economic truth that the productiveness of a tax is not its first consideration.

The trouble in early days appears partly to have been, not that the persons assessed refused to pay the taxes assessed, but that the amounts paid and assessed did not reach the public treasury. A striking example is the fact that in France in 1598, of all the money extorted, only 20% got into the public treasury. In Rome, the practice existed of "farming out" the tax, the same being collected by "publicans." These publicans were held in high esteem by the Romans, for obvious reasons, but by the Greeks they were regarded as robbers!

History appears to be very much a record of revolt against taxation. The famous revolts under Wat Tyler and Jack Cade in England are typical of the feeling caused by certain kinds of taxation. It is recorded that the Protestant secession, led by Luther, was due primarily to the exactions demanded by Pope Leo X in 1517 for rebuilding of St. Peter's at Rome. We know that Charles I lost his head and his crown for taxes. The French Revolution has been generally charged to the abuse of taxation. The decline of Greece is traced to the objections to the taxes. The secession of the ten tribes of Israel was due to the taxes imposed by Solomon, and imposed with more rigor by Solomon's successor, Rehoboam. "Then King Rehoboam sent Hadoram that was over the tribute; and the children of Israel stoned him with stones that he died" (II Chronicles XI). It seems to us of the present day, quite a reversal of usual procedure for the tax gatherer to be subjected to indignities. The Druids had a most effective way of collecting imposts. On the last day of October, each person was obliged to allow the fires on his hearth to go out, which fires could only be rekindled

at the sacred fire of the Druids, *after taxes were paid*. It will thus be seen that any man who didn't pay his taxes would have an especially cold winter.

As stated previously, taxes were imposed in olden times for any necessary act. In the Norman period, one Ralph Bordolph had to pay five marks "for leave to rise from his infirmity." In England at one time, all (or certain) fish were taxed to the fishermen catching them. A fisherman was once taxed because he caught a whale and, when the tax was assessed against him, he offered in defence the scientific fact that the whale is not a fish; but he had to pay some portion of the fine anyhow. One can excuse England or any other country for fining fishermen. At one time every family in France *had* to buy seven pounds of salt per annum; that is (as usual) every family other than the nobility and the clergy. In France, the exactions were so great, at one time, that they exceeded *in the aggregate* the entire income from the property. In the time of Peter the Great, there was a tax on beards! Such a tax (judging by the moving pictures) must have fitted in perfectly with our own Constitution, that "all duties, imposts and excises shall be uniform—."

In the United States, we have had, at various times, the problem of the extent to which the respective states and the federal government can go in the matter of taxing each other's instrumentalities. This question arises from the retention by the States of certain powers when they entered the Union. The federal constitution is the agreement under which the federal government acts. In *McCulloch v. Maryland*, Chief Justice Marshall stated in effect that the state has no

constitutional power to lay any tax upon a national bank, the latter being an agency of the national government. In another case, involving the taxation by a state of a federal obligation, the same justice held that it was a tax on the power to borrow money on the credit of the United States. I have referred to this phase of taxation in the United States for the reason that the subject of tax-exempt securities has created a great deal of excitement; and for the further reason, that the subject has been more directly in the limelight in recent federal and state legislation affecting the "moneyed capital" tax in the State of New York.

In order to carry out the (original) letter of the constitution, "that representatives and direct taxes shall be apportioned among the several states according to their respective number," the federal government used to assess each state very much in the way that a city will charge a part of the total budget to each piece of property. In this connection, I read of a piece of accounting procedure which is reminiscent of a certain federal accounting officer in our day. The State of Georgia was one of the insurrection states. The government had appropriated \$35,555 to reimburse that state for amounts expended by the latter in 1777. When the Civil war came, there were still unpaid some federal taxes due from Georgia. Whereupon, the amount voted for the War of Independence was applied in reduction of the federal imposts. And while on the subject of the War of Independence, the question arose one time whether certain goods imported into a certain New England town, during the British occupation thereof, should be taxed after the town was vacated by the British. The decision was in

the negative for the reason that the town had passed under a temporary allegiance to the British during the occupation.

I cannot close without referring to a period which will, to a future contributor to the Journal, be regarded as fruitful material for historical reference.

The past few years have seen a great deal of history made affecting the general subject of taxation. The strain on everybody has been very heavy, but there was a cheerful acceptance of the situation. One could think of no better definition of the tax situation than one given by Webster in connection with tax, "a disagreeable or burdensome duty or charge; as, a heavy tax on time, health and strength." And through it all, the accountant has played a conspicuous part in aiding the country in collecting the tax and advising in the spending of it. The accountant's work before the Treasury, as the representative of the taxpayer, has been a test of his mentality and integrity.

Happily the qualified accountant has won the respect of the taxpayer and the government and, we believe, he has made a real contribution to the administration of the income and profits tax laws which have played so important a part in the recent economic history of our country.

A Long Time Friend

(Continued from page 25)

W. T. C. Carpenter, the corporation's first vice president. To Mr. Carpenter, who is head of the Stock Exchange house of Colgate Hoyt & Co., have been attributable important company accomplishments. Mr. Lemoine was appreciative particularly of the responsibility of Mr. Carpenter for the introduction into the company's economies of the Lavaud processes by which vast industrial strides have been taken.

Tact and Talent

Talent is something, but tact is everything. Talent is serious, sober, grave, and respectable: tact is all that, and more, too. It is not a sixth sense, but it is the life of all the five. It is the open eye, the quick ear, the judging taste, the keen smell, and the lively touch; it is the interpreter of all riddles, the surmounter of all difficulties, the remover of all obstacles. It is useful in all places, and at all times; it is useful in solitude for it shows a man his way into the world; it is useful in society for it shows him his way through the world.

Talent is power, tact is skill; talent is weight, tact is momentum; talent knows what to do, tact knows how to do it; talent makes a man respectable, tact will make him respected; talent is wealth, tact is ready money. For all the practical purposes of life, tact carries it against talent, ten to one. Take them to the theatre, and put them against each other on the stage, and talent shall produce you a tragedy that will scarcely live long enough to be condemned, while tact keeps the house in a roar, night after night, with its successful farces. There is no want of dramatic talent, there is no want of dramatic tact; but they are seldom together; so we have successful pieces which are not respectable, and respectable pieces which are not successful.

Take them to the bar, and let them shake their learned curls at each other in legal rivalry. Talent sees its way clearly, but tact is first at its journey's end. Talent has many a compliment from the bench, but tact touches fees from attorneys and clients. Talent speaks learnedly and logically, tact triumphantly. Talent makes the world

wonder that it gets on no faster, tact excites astonishment that it gets on so fast. And the secret is that tact has no weight to carry; it makes no false steps; it hits the right nail on the head; it loses no time; it takes all hints, and, by keeping its eye on the weathercock, is ready to take advantage of every wind that blows.

Take them into the church. Talent has always something worth hearing, tact is sure of abundance of hearers; talent may obtain a living, tact will make one; talent gets a good name, tact a great one; talent convinces, tact converts, talent is an honor to the profession, tact gains honor from the profession. Take them to court. Talent feels its weight, tact finds its way; talent commands, tact is obeyed; talent is honored with approbation, and tact is blessed by preferment.

Place them in the senate. Talent has the ear of the house, but tact wins its heart, and has its votes; talent is fit for employment, but tact is fitted for it. Tact has a knack of slipping into place with a sweet silence and glibness of movement as a billiard ball insinuates itself into the pocket. It seems to know everything, without learning anything. It has served an invisible and extemporary apprenticeship; it wants no drilling; it never ranks in the awkward squad; it has no left hand, no deaf ear, no blind side. It puts on no looks of wondrous wisdom, it has no air of profundity, but plays with the details of place as dexterously as a well-taught hand flourishes over the keys of the piano-forte. It has all the air of commonplace, and all the force and power of genius.

—*London Atlas.*





